ABSTRACT

A system, method and computer program for creating and valuing financial instruments (including but not limited to futures, forwards, call options, put options, swaps, "swaptions", and "op-swaps") linked to average credit spread information. The present invention will be referred to in this application as an average credit spread-linked financial instrument, and is defined as a financial instrument whose value changes based on movements in underlying average credit spreads. These average credit spreads may be calculated, or may already be published by sovereign governments, government-chartered agencies and departments (ex. U.S. Treasury Department), non-governmental organizations, commercial banks, investment banks, and many other organizations. The instruments can be written, with a published average credit spread number as the initial value upon which the financial instrument's terms are based. The predicted future value of said credit spread will change in response to market buy / sell demand based on investor expectations of said predicted future value of said credit spread related to one or more credit spread-linked financial instrument(s). Thus, the predicted future value of said spread will change in response to said market demand as investors offer to buy and / or sell credit spread-linked financial instruments which will be listed on securities exchanges and electronic commerce networks (ECNs) as well as over the counter (OTC) and in private transactions. Each predicted future average credit spread value will change based on said investor expectation of how strong demand will be for the underlying average credit spread involved. Thus, the present invention gives investors a means of taking or adjusting positions upon average credit spread changes in market segments defined by geography, credit history, industry type, industry size, firm size, provision of collateral, third-party guarantee, or type of debt obligation. It is important to note credit spread-linked financial instruments can be created either in standardized contract sizes that can be traded on futures, options or other securities exchanges, ECNs and / or OTC, or can be customized to meet the specifications of a transactional counterparty which wishes to speculate on movements in market segments defined by geography, credit history, industry type, industry size, firm size, provision of collateral, third-party guarantee, or type of debt obligation. Such instruments may also be created from a plurality of spreads, thus allowing an investor to package movements from several different credit spreads into a single financial instrument. Such instruments may also involve a combination of credit spread-linked financial instruments,

either with each other or with other financial instruments in a combination containing at least one credit spread-linked financial instrument.